

**Testimony of
Kevin M McGowan**

1 **DELMARVA POWER & LIGHT COMPANY**
2 **TESTIMONY OF KEVIN M. MCGOWAN**
3 **BEFORE THE DELAWARE PUBLIC SERVICE COMMISSION**
4 **CONCERNING AN INCREASE IN ELECTRIC BASE RATES**
5 **DOCKET NO. 11-__**
6 _____

7 **1. Q: Please state your name and position, and business address.**

8 A: My name is Kevin M. McGowan. I am Vice President and Treasurer of
9 Pepco Holdings, Inc. (PHI), which is located at 701 9th St NW, Washington, DC
10 20001. I am testifying on behalf of Delmarva Power & Light Company
11 (Delmarva or the Company).

12 **2. Q: Please state your educational background and professional qualifications?**

13 A: I graduated from the University of Texas at San Antonio receiving a
14 Bachelor of Business Administration degree in both Accounting and Business
15 Data Systems. I also graduated from the University of Chicago Graduate School
16 of Business and received a Masters of Business Administration in Finance. I am a
17 Certified Public Accountant.

18 I joined the Pepco organization in 1998 as the Vice President and
19 Treasurer of Potomac Capital Investments, a subsidiary of Pepco. In 2004, I
20 transferred to Pepco's Power Delivery group and eventually to PHI, where I have
21 held various financial positions. In March 2009, I became Vice President and
22 Treasurer of PHI. Prior to joining the Pepco organization, I worked for Duty Free
23 International, an international retail company, and prior to that I worked for Ernst
24 & Young.

1 3. Q: **What are your responsibilities in your role as Vice President and Treasurer?**

2 A: I am responsible for PHI's corporate finance, treasury, credit, investment
3 and risk management activities. As part of my responsibilities, I am responsible
4 for the Company's fixed income borrowings and capital structure, the credit rating
5 agencies relationship, and I am involved with managing the Company's
6 relationships with the financial community.

7 4. Q: **Have you recently testified before the Delaware Public Service Commission?**

8 A: Yes, I appeared before the Delaware Public Service Commission (PSC or
9 Commission) in 2010 in conjunction with the Company's application for long-
10 term financing authority.

11 5. Q: **What is the purpose of your testimony?**

12 A: The purpose of my testimony is to present and support the Company's
13 request to earn an overall rate of return (ROR) of 7.87% on its distribution rate
14 base in Delaware. Also, I will present the Company's capital structure and
15 current credit ratings, and explain why it is critical to the Company, and beneficial
16 to the customers that Delmarva maintains a strong investment grade credit rating.
17 Finally, I will provide a brief overview of the financial modeling assumptions
18 used to determine the impact of regulatory lag on the Company's ability to earn
19 its allowed ROR. This testimony was prepared by me or under my direct
20 supervision and control. The source documents for my testimony are Company
21 records, public documents and my personal knowledge and experience.

1 6. Q: Will you please summarize your testimony?

2 A: As shown in Schedule KMM-1, the Company is requesting an overall rate
3 of return of 7.87% on its distribution rate base in Delaware. This overall rate of
4 return is the weighted average, based on the Company's September 30, 2011
5 capital structure ratios of 49.48% common equity and 50.52% long-term debt, its
6 embedded long-term debt cost of 5.05% and its return on common equity of
7 10.75%, as determined by Company Witness Hevert.

8 7. Q: What factors influence the Company's capital structure?

9 A: It is necessary to consider the relative costs and risks of the long-term debt
10 and common equity that comprise the Company's capital structure. In general,
11 contractual interest and principal payments to long-term debt holders have priority
12 over non-contractual dividend payments to common equity holders. As long-term
13 debt presents lower risk to the investor, it nominally offers a lower rate of return
14 to the investor and therefore carries a lower cost to the issuer. Conversely, as
15 common equity presents higher risk to the investor, it nominally offers a higher
16 rate of return to the investor and therefore carries a higher cost to the issuer.

17 Given the trade-offs between the costs and risks of long-term debt and
18 common equity, the Company must primarily consider its financial integrity, as
19 nominally reflected in its credit ratings and other key financial metrics in order to
20 successfully balance the needs of its customers and investors. In general, a higher
21 credit rating allows the Company to access a larger investor base and increase the
22 sources of financing it can access from the capital markets. Conversely, the lower
23 the Company's credit rating, the more difficult and more costly it is for the

1 Company to access the capital markets, which consequently will result in a higher
2 cost to our customers.

3 **8. Q: What is the overriding factor influencing formation of the capital structure?**

4 A: Given the direct link between financial integrity and capital structure, the
5 overriding factor influencing the Company's capital structure is to ensure our
6 credit rating metrics support our credit rating. The Company's capital structure
7 has been critical in achieving a level of financial integrity that allows it to raise
8 the necessary capital to serve our customers' needs in terms of reliable and cost-
9 effective electric service.

10 **9. Q: What capital structure does the Company recommend for the purpose of**
11 **ratemaking in this proceeding?**

12 A: As indicated in Schedule KMM-2, the capital structure the Company
13 recommends for this proceeding is:

14 Long-Term Debt 50.52%

15 Common Equity 49.48%

16 This capital structure is consistent with the Company's goals and
17 objectives, and necessary to maintain our current credit ratings. In addition, our
18 current credit ratings are based on our commitment to maintain a capital structure
19 consistent with these percentages. We have also communicated these targets to
20 the financial community.

21 **10. Q: Is this capital structure consistent with industry practice and averages?**

22 A: Yes. The Company's recommended capital structure is consistent with the
23 2010 full-year and 2011 year-to-date reported averages of 48.45% and 47.98%,

1 respectively, of the common equity ratios of electric utilities as published in the
2 October 2011 edition of Regulatory Research Associates' "Regulatory Focus:
3 Major Rate Case Decisions", as well as with a 2012 – 2016 forecast range from
4 49.0% to 49.5% for the average equity ratio of the Electric Utility (East) Industry
5 sector between 2012 and 2016, as published by Value Line on August 26, 2011.

6 **11. Q: Are there other reasons this capital structure is appropriate for use in this**
7 **proceeding?**

8 A: Yes. As indicated in the Direct Testimony of Company Witness Hevert,
9 the Company's recommended capital structure is reasonable given a mean
10 common equity ratio of 51.20% (range between 47.26% and 58.88%) for the nine
11 (9) companies comprising his peer group for the purpose of determining the cost
12 of equity in this proceeding.

13 **12. Q: What are the Company's credit ratings by major rating agencies?**

14 A: Delmarva's long-term corporate credit ratings (unsecured debt ratings) are
15 BBB+, Baa2 and A- from S&P, Moody's and Fitch, respectively. As noted in
16 S&P's "Global Credit Portal" report dated January 24, 2011, 68% of U.S.
17 investor-owned electric utilities carry ratings from BBB- to BBB+, with an
18 additional 28% rated A-, or better.

19 While specific financial metrics, and how they are weighted, may differ
20 among the three rating agencies, Delmarva's current ratings generally indicate
21 that the Company should have reasonable access to the capital markets and
22 adequate liquidity under most scenarios.

1 **13. Q: Please briefly describe the importance of the Company's credit ratings?**

2 **A:** As previously stated, the Company's credit ratings indicate the rating
3 agencies' assessment of the Delmarva's ability to meet its obligations to its long
4 term debt holders. The higher the credit rating, the greater the perceived
5 likelihood that the debt investors will receive their interest and principal payments
6 as expected. As such, a company with a higher credit rating has access to a larger
7 investor base, faces fewer restrictive covenants and can issue long-term debt at
8 lower cost. This is particularly advantageous today given the Company's plans to
9 invest a significant amount of capital over the next five years, especially in system
10 reliability, the Blueprint for the Future and other distribution infrastructure
11 projects. In addition, given the significant credit commitments associated with
12 the Standard Offer Service (SOS) procurement process, a high credit rating allows
13 the Company the option to obtain the best pricing, terms and conditions from the
14 load-serving entities.

15 Conversely, lower credit ratings reflect increased investor risk; therefore,
16 investors expect to be paid more to provide funds to such an issuer. In addition,
17 lower credit ratings typically result in investors demanding more restrictive terms
18 and covenants from the issuer. Lower credit ratings also limit the pool of
19 investors that may otherwise invest in the Company due to ratings restrictions
20 imposed by some institutional investors. These additional costs associated with
21 lower credit ratings will only increase the costs to our customers.

1 **14. Q: Does regulatory lag present a credible risk to the Company's credit ratings?**

2 A: Yes. All else equal, the Company's ability to generate sufficient cash flow
3 from operations to meet its obligations is one of the most important factors in
4 determining credit ratings. Although the three rating agencies may differ
5 somewhat in their proprietary use and weighting of conventional financial
6 metrics, major emphasis is consistently placed upon a rated entity's funds from
7 operations (FFO) relative to its interest payment obligations (FFO / Interest
8 Coverage) and indebtedness (FFO / Debt).

9 As indicated in the Direct Testimony of Company Witness Kamerick,
10 regulatory lag, or the chronic shortfall between Delmarva's revenues and its
11 requirements to maintain and invest in its distribution rate base in Delaware, not
12 only adversely impacts the Company's ability to earn its authorized rate of return,
13 but also its ability to directly fund its obligations from operations without
14 incurring additional indebtedness. Given the rating agencies' primary focus on
15 the Company's ability to generate funds from operations relative to indebtedness,
16 it follows that failure to remedy Delmarva's chronic regulatory lag through these
17 Proceedings presents a credible risk to the Company's credit ratings.

18 In effect, the ability of the Company to generate cash speaks directly to the
19 quality of its earnings, and therefore to its credit rating. In this light it should be
20 considered that non-cash generating remedies, including the establishment of
21 regulatory assets, while perhaps helpful from an earnings perspective, do not
22 increase cash flow from operations or provide recovery for the costs invested in
23 the system.

1 15. Q: What are the benefits of investment grade status for the Company's
2 customers?

3 A: It is important for customers to be served by a financially strong utility
4 that is able to access capital markets in a cost-effective manner. For example,
5 when liquidity disappeared from short-term credit markets during the onset of the
6 U.S. banking crisis in 2008, the Company had difficulty (and during a period of
7 time was unable) to roll-over commercial paper used to temporarily finance its
8 utility construction and operations activities. As a result, the Company sought
9 and received Commission approval to issue and sell \$250 million of long-term
10 debt securities, which the Company was only able to do on acceptable terms
11 because of its investment- grade credit ratings.

12 16. Q: Will an investment grade credit rating benefit customers in the future?

13 A: Yes, looking forward over the next five years, the Company plans to
14 invest significant capital into critical infrastructure and reliability projects. This
15 capital investment must be financed through the debt and equity markets. A
16 strong investment grade credit rating will allow the Company timely access to
17 capital markets, result in lower cost financing and lower the cost of service to our
18 customers. In addition, the Company has significant credit commitments to load-
19 serving entities in the SOS procurement process. A strong investment grade
20 credit rating allows the Company to obtain the best pricing, terms, and conditions.

1 17. Q: How did you calculate the Company's embedded cost of long-term debt?

2 A: The embedded cost of long-term debt was calculated in the same manner
3 used in the Company's previous rate filing (Docket No. 09-414), as shown in
4 Schedule KMM-3 and Schedule KMM-4.

5 18. Q: What overall rate of return is the Company requesting in these proceedings?

6 A: The Company is requesting an overall rate of return of 7.87% on its
7 distribution rate base in Delaware, as provided in Schedule KMM-1.

8 19. Q: Have you prepared a revenue requirement forecast for the first year of the
9 rate increase ending June 30, 2013 for Delmarva's Delaware jurisdiction?

10 A: Yes. A revenue requirement forecast for Delmarva's Delaware
11 jurisdiction was prepared for this case to demonstrate the effects of regulatory lag
12 during the first twelve month of the rate increase. That forecast appears in
13 Schedule WMV-18 of Company Witness W. Michael VonSteuben.

14 20. Q: How was the revenue requirement forecast for the first year of the rate
15 increase ending June 30, 2013 for Delmarva's Delaware jurisdiction
16 prepared?

17 A: It was prepared based on projections of Delmarva's operating results and
18 growth in rate base for the first year of the rate increase. The key assumptions
19 underlying those projections are:

- 20 1. MWH Sales (Delaware distribution) 8,313,000 MWH for the twelve months
21 ending June 30, 2013.

- 1 2. Sale of Electricity (Delaware distribution) \$159,000,000 for the twelve
- 2 months ending June 30, 2013 were projected using budgeted customers by
- 3 class and the rate per customer authorized in Docket No. 09-414.
- 4 3. Operation & Maintenance Expense (System Distribution - related)
- 5 \$166,000,000 for the twelve months ending June 30, 2013.
- 6 4. Income Taxes were calculated using currently effective income tax rates.
- 7 5. Construction Expenditures (Delmarva) \$331,000,000 for the twelve months
- 8 ending June 30, 2013.
- 9 6. Plant In Service, Accumulated Depreciation, Depreciation Expense, and
- 10 Property Tax Expense were projected based on forecasted closings to plant.
- 11 7. Cash Working Capital was projected using forecasted operating expense
- 12 activity.
- 13 8. Accumulated Deferred Income Taxes are based on projected deferred tax
- 14 activity.
- 15 9. Prepaid Pension/OPEB Liability was projected based on forecasted activity in
- 16 2011 and held constant for the first year of the rate increase.

17 The projections of operating results and rate base for the first year of the
18 rate increase prepared using these key assumptions were first directly assigned or
19 allocated to Delmarva's distribution line of business and then to the Delaware
20 jurisdiction.

21 **21. Q: Does this conclude your testimony?**

22 **A:** Yes, it does.

Delmarva Power & Light Company
Overall Rate of Return
September 30, 2011
Delaware

DPL Delaware Electric

<u>Type of Capital</u>	<u>Ratios</u>	<u>Cost Rate</u>	<u>Weighted Cost Rate</u>
Long-Term Debt	50.52%	5.05%	2.55%
Common Equity	<u>49.48%</u>	10.75%	<u>5.32%</u>
Total	<u>100.00%</u>		<u>7.87%</u>

Schedule KMM-2

Delmarva Power & Light Company
Capital Structure and Capitalization Ratios
September 30, 2011
Delaware

Type of Capital	September 30, 2011	
	Amount (\$)	Ratios
Long-Term Debt	869,970,000	
Unamortized Net Discount	(647,178)	
Unamortized Debt Issuance Costs	(5,164,080)	
Total Long-Term Debt	864,158,742	50.52%
Common Equity	846,272,278	49.48%
Total	1,710,431,020	100.00%

Delmarva Power & Light Company
Weighted Cost of Debt
September 30, 2011
Delaware

Schedule KMM-3

Issue	Coupon Rate	Maturity	Offering Date	Current			Effective Cost Rate	Annual Net Cost
				Principal Amount Outstanding	Unamortized Debt Issuance Costs	Unamortized (Premium)/ Discount		
<u>First Mortgage Bonds</u>								
Total First Mortgage Bonds	6.40%	12/1/2013	11/25/2008	\$250,000,000	\$914,977	\$243,176	6.63%	\$16,501,331
				\$250,000,000	\$914,977	\$243,176		\$16,501,331
<u>Unsecured Notes</u>								
Total Unsecured Notes	5.00%	11/15/2014	11/19/2004	\$100,000,000	\$287,498	\$152,946	5.12%	\$5,097,225
	5.00%	6/1/2015	6/1/2005	\$100,000,000	\$318,288	\$148,126	5.11%	\$5,086,196
	5.22%	12/30/2016	12/20/2006	\$100,000,000	\$376,636	\$0	5.30%	\$5,277,712
				\$300,000,000	\$982,422	\$301,072		\$15,461,133
<u>Tax Exempt Fixed Rate Bonds</u>								
Total Tax Exempt Fixed Rate Bonds	5.20%	2/1/2019	5/21/2002	\$31,000,000	\$619,394	\$0	5.61%	\$1,704,089
	5.40%	2/1/2031	4/1/2010	\$78,400,000	\$1,350,187	\$0	5.55%	\$4,272,905
	1.80%	6/1/2012	12/1/2010	\$15,000,000	\$117,883	\$0	3.01%	\$448,314
	2.30%	6/1/2012	12/1/2010	\$16,240,000	\$126,950	\$0	3.52%	\$566,529
	0.75%	6/1/2012	5/1/2011	\$34,500,000	\$469,186	\$0	2.67%	\$909,521
				\$175,140,000	\$2,683,600	\$0		\$7,901,358
<u>Tax-Exempt Variable Rate Bonds</u>								
Daily	0.65%	10/1/2017	10/1/1987	\$8,000,000	\$62,881	\$0	0.80%	\$63,340
Daily	0.65%	10/1/2017	9/28/1988	\$18,000,000	\$56,227	\$0	0.71%	\$126,918
Weekly	0.57%	10/1/2028	10/14/1993	\$15,500,000	\$140,087	\$0	0.63%	\$96,268
Daily	0.65%	10/1/2029	10/12/1994	\$30,000,000	\$193,743	\$0	0.70%	\$207,875
Weekly	0.50%	7/1/2024	7/28/1999	\$22,330,000	\$102,085	\$0	0.63%	\$140,091
Weekly	0.60%	7/1/2024	7/28/1999	\$11,000,000	\$0	\$0	0.69%	\$75,619
Total Tax Exempt Variable Rate Bonds				\$104,830,000	\$555,023	\$0		\$710,110
<u>Medium-Term Notes Series C</u>								
Total Medium-Term Notes Series C	7.58%	2/1/2017	2/10/1997	\$2,000,000	\$3,528	\$0	7.65%	\$152,801
	7.56%	2/1/2017	2/18/1997	\$12,000,000	\$21,167	\$0	7.63%	\$914,370
	6.81%	1/9/2018	1/9/1998	\$4,000,000	\$321	\$9,399	6.88%	\$274,515
	7.61%	12/2/2019	2/12/1997	\$12,000,000	\$3,043	\$93,531	7.68%	\$914,015
	7.72%	2/1/2027	2/7/1997	\$10,000,000	\$0	\$0	7.78%	\$778,476
				\$40,000,000	\$28,059	\$102,930		\$3,034,176
<u>Total Long-Term Debt Balance</u>								
				\$869,970,000	\$5,164,080	\$647,178	5.05%	\$43,608,108

Delmarva Power & Light Company
Effective Cost Rate
Long-Term Debt
September 30, 2011
Delaware

Issue	Coupon Rate	Maturity	Offering Date	Original		Net Amount to Company	Net Amount Per Unit	Yield to Maturity
				Principal Amount Issued	Offering Amount			
<u>First Mortgage Bonds</u>	6.40%	12/1/2013	11/25/2008	\$250,000,000	\$249,487,500	\$247,562,395	\$99.02	6.63%
<u>Unsecured Notes</u>	5.00%	11/15/2014	11/19/2004	\$100,000,000	\$100,000,000	\$99,071,776	\$99.07	5.12%
	5.00%	6/1/2015	6/1/2005	\$100,000,000	\$100,000,000	\$99,146,806	\$99.15	5.11%
	5.22%	12/30/2016	12/20/2006	\$100,000,000	\$100,000,000	\$99,400,000	\$99.40	5.30%
<u>Tax Exempt Fixed Rate Bonds</u>	5.20%	2/1/2019	5/21/2002	\$31,000,000	\$31,000,000	\$29,634,130	\$95.59	5.61%
	5.40%	2/1/2031	4/1/2010	\$78,400,000	\$78,400,000	\$76,993,382	\$98.21	5.55%
	1.80%	6/1/2012	12/1/2010	\$15,000,000	\$15,000,000	\$14,735,218	\$98.23	3.01%
	2.30%	6/1/2012	12/1/2010	\$16,240,000	\$16,240,000	\$15,953,909	\$98.24	3.52%
	0.75%	6/1/2012	5/1/2011	\$34,500,000	\$34,500,000	\$33,796,221	\$97.96	2.67%
<u>Tax-Exempt Variable Rate Bonds</u>	0.65%	10/1/2017	10/1/1987	\$8,000,000	\$8,000,000	\$7,684,640	\$96.06	0.80%
Daily	0.65%	10/1/2017	9/28/1988	\$18,000,000	\$18,000,000	\$17,729,893	\$98.50	0.71%
Weekly	0.57%	10/1/2028	10/14/1993	\$15,500,000	\$15,500,000	\$15,224,204	\$98.22	0.63%
Daily	0.65%	10/1/2029	10/12/1994	\$30,000,000	\$30,000,000	\$29,559,213	\$98.53	0.70%
Weekly	0.50%	7/1/2024	7/28/1999	\$22,330,000	\$22,330,000	\$21,660,100	\$97.00	0.63%
Weekly	0.60%	7/1/2024	7/28/1999	\$11,000,000	\$11,000,000	\$10,780,000	\$98.00	0.69%
<u>Medium-Term Notes Series C</u>	7.58%	2/1/2017	2/10/1997	\$2,000,000	\$2,000,000	\$1,985,000	\$99.25	7.65%
	7.56%	2/1/2017	2/18/1997	\$15,000,000	\$15,000,000	\$14,887,500	\$99.25	7.63%
	6.81%	1/9/2018	1/9/1998	\$33,000,000	\$33,000,000	\$32,752,500	\$99.25	6.88%
	7.61%	12/2/2019	2/12/1997	\$12,000,000	\$12,000,000	\$11,910,000	\$99.25	7.68%
	7.72%	2/1/2027	2/7/1997	\$30,000,000	\$30,000,000	\$29,775,000	\$99.25	7.78%

**Testimony of
Gary R. Stockbridge**

1 **DELMARVA POWER & LIGHT COMPANY**
2 **TESTIMONY OF GARY R. STOCKBRIDGE**
3 **BEFORE THE DELAWARE PUBLIC SERVICE COMMISSION**
4 **CONCERNING AN INCREASE IN ELECTRIC BASE RATES**
5 **DOCKET NO. 11-__**
6

7 1. **Q: Please state your name and position, and business address.**

8 A: My name is Gary R. Stockbridge. I am President, Delmarva Power
9 Region for Pepco Holdings, Inc., (PHI). My business address is 401 Eagle Run
10 Road, Newark, DE 19702. I am testifying in this proceeding on behalf of
11 Delmarva Power & Light Company (Delmarva Power or the Company).

12 2. **Q: Please state your educational background and professional qualifications.**

13 A: I hold a B.S. degree in Mechanical Engineering from Drexel University
14 (1984) and a Master's degree in Business from Drexel University (2004). I have
15 been working in the utility industry for over 29 years. I began my career with the
16 Philadelphia Electric Company (PECO) in 1982. At PECO I worked in gas
17 operations, marketing, and finance, in positions of increasing responsibility. I left
18 PECO holding the position of Vice President of PECO's unregulated affiliate
19 "Horizon Energy," responsible for selling natural gas and electricity at retail in
20 the restructured energy markets in the Mid-Atlantic Region. I began my career
21 with Delmarva Power in 1997, shortly before its merger with Atlantic City
22 Electric to form Conectiv. At the newly-combined company, I was initially
23 responsible for its competitive retail energy business, remaining in that role until
24 2000. I then moved into the regulated power delivery business as Vice President
25 of Customer Care, remaining in that position when Conectiv merged with

1 Potomac Electric Power Company (Pepco) to form PHI in 2002. I became
2 President of the Delmarva Power Region of PHI in 2005.

3 3. Q: What are your responsibilities in your role as President, Delmarva Power
4 region?

5 A: I am responsible for ensuring that Delmarva Power's services and
6 performance meet the expectations of our customers, regulators and other
7 government officials. I am also responsible for governmental and other external
8 relations in Delmarva Power's service territories, and Delmarva Power's
9 participation in the communities we serve. My responsibilities also include
10 establishing and maintaining strong ties with our States and local communities,
11 including volunteer and corporate giving activities. I am a liaison and advocate
12 on behalf of the customers and communities that Delmarva Power serves, and am
13 accountable for ensuring the resolution of all issues and concerns in the Delmarva
14 Power region.

15 4. Q: Have you recently testified before the Delaware Public Service Commission?

16 A: Yes, I have. I have recently presented testimony as a Witness before the
17 Delaware Public Service Commission (DPSC or the Commission) in the
18 Company's Direct Load Control proceeding, Docket No. 11-330 as well as
19 testimony in the Company's Dynamic Pricing proceeding, Docket No. 09-311,
20 and in the Hurricane Isabel proceeding in 2005.

1 5. Q: What is the level of your leadership team's involvement in community
2 activities?

3 A: The leadership team of Delmarva Power currently serves on several
4 boards. These organizations are making a lasting imprint on the communities we
5 serve which are often hard pressed to find strong local engaged board members.
6 Some of the boards we serve on, and many are positions on the Executive Board,
7 are the Red Cross of the Delmarva Peninsula, Girl Scouts of the Chesapeake Bay
8 Council, Boy Scouts of the Chesapeake Bay Council, Junior Achievement, United
9 Way of Delaware, Big Brothers Big Sisters, and the Delmarva Poultry Industry,
10 the Delaware Work Force Investment Board, Metropolitan Wilmington Urban
11 League, and Habitat for Humanity. We are also active participants on several
12 Chambers of Commerce, Offices of Economic Development and Local
13 Emergency Planning Committees.

14 6. Q: What is the purpose of your testimony in this proceeding?

15 A: The purpose of my testimony is to demonstrate that Delmarva Power plays
16 an important role in the community and that, if it is to continue to do so, it
17 requires sufficient financial resources. In support of this purpose, I will discuss
18 the following subjects:

- 19 • An overview of the Company;
- 20 • Delmarva Power's vision and values;
- 21 • The Company's engagement in the community;
- 22 • The Company's leadership role in the energy industry;
- 23 • Delmarva Power's stewardship of the environment; and

- 1 • The key role the Company plays in helping the State meet its energy
2 policy and economic development objectives.

3 I will demonstrate that the Company is an important member of the
4 broader Delmarva Peninsula and the communities located there, and that it is in
5 the interest of those communities and our customers for Delmarva Power to have
6 the financial ability to maintain that beneficial presence.

7 This testimony and accompanying schedules were prepared by me or
8 under my direct supervision. The source documents for my testimony are
9 Company records, public documents, and my personal knowledge and expertise.

10 7. **Q: Please provide an overview of the company.**

11 A: Delmarva Power is a transmission and distribution company, delivering
12 electricity to approximately 500,000 electric customers and 123,000 gas
13 customers living and working in the state of Delaware. Providing service in
14 Delmarva Power's Delaware service territory takes the work of over 1,400
15 employees working in six different facilities spread across the region. Delmarva
16 Power operates and maintains 852 miles of transmission lines and 5,894 miles of
17 distribution lines in Delaware, of which 3,119 miles are underground. The
18 Company operates 100 power substations and a large fleet of vehicles which the
19 Company is working to transform into a fleet of hybrid vehicles.

20 8. **Q: What are the corporate vision and values, and how do they shape the**
21 **corporate policies?**

22 A: The Company's stated core values are: Safety, Accountability, Integrity,
23 Diversity, and Excellence. Together, these values permeate the daily operations

1 of the Company, and our employees work to provide exceptional customer service
2 and electric power reliability in a safe and cost-effective manner. For example,
3 internal meetings at Delmarva Power and throughout PHI begin with safety
4 messages. The companies closely track work practices, investigate all accidents,
5 and continuously work to improve safety procedures.

6 The Company also conducts its activities with integrity, with annual
7 mandatory courses on safety, codes of conduct, conflicts of interest, Sarbanes-
8 Oxley compliance, and other ethical rules.

9 PHI and Delmarva Power are proud of their supplier diversity and hiring
10 practices. The companies create opportunities for diverse suppliers to do business
11 with us by advertising contracting opportunities, maintaining supplier registries,
12 and participating in supplier diversity forums and conferences. The companies
13 recognize the value of diversity in every aspect of company operations.

14 9. Q: How does Delmarva Power promote supplier diversity in its corporate
15 operations?

16 A: PHI Supplier Diversity is a corporate-wide initiative that assures
17 regulatory and legislative compliance, identifies diverse companies and verifies
18 their ownership and works internally and externally to identify and promote
19 contracting opportunities for diverse suppliers. Supplier Diversity works with
20 business advocacy groups to identify and qualify small and diverse businesses for
21 potential contracting opportunities with PHI companies.

22 Supplier Diversity has an on-line registration process for diverse
23 businesses interested in doing business with PHI. PHI's Supplier Diversity is a

1 nationally recognized company-wide initiative which has been the proud recipient
2 of many awards locally and regionally. Delmarva Power had total utility
3 procurement for goods and services totaling \$19 million dollars January 1 through
4 December 31, 2010. Direct spend to diverse suppliers totaled \$7.9 million or 41%
5 of diverse supplier spend to total utility procurement for goods and services.

6 Delmarva Power is currently contract with 47 diverse businesses across
7 Delaware. These contracts are just one facet of the role the Company plays in
8 bolstering the Delaware economy. It is imperative in the communities we serve,
9 and for the diverse and small businesses, that Delmarva Power continue to be a
10 recognized and trusted ally.

11 PHI has been recognized for its supplier diversity efforts by groups such
12 as Diversity/Careers in Engineering & Information Technology: "Best Diversity
13 Company 2010"; Women's Business Enterprise Council: "Shining Star";
14 Hispanic Business Magazine: "Top 25 Supplier Diversity Programs"; and Black
15 Enterprise Magazine: "40 Best Companies for Diversity" for the sixth year in a
16 row for the supplier diversity initiatives and diversity of employee and senior
17 management base.

18 **10. Q: What other methods does the Company use to ensure a diverse and qualified**
19 **workforce?**

20 **A:** The Company's staffing initiatives also offer work experience programs
21 such as cross-functional development, college engineering internships,
22 engineering co-op and pre-engineering programs. These programs provide work
23 experience to high school and college students while increasing the pool of

1 potential candidates for technical, hard-to-fill positions at Delmarva Power. In
2 2010, PHI was among large companies honored by *Leadership Development*
3 *Magazine* based on criteria for effective, relevant, and comprehensive leadership
4 development programs.

5 **11. Q: How does the Company maintain a relationship with its customers and the**
6 **community at large?**

7 A: First and foremost, Delmarva Power focuses on providing safe and
8 reliable electric service at the least possible cost to consumers. All other customer
9 and community relationships flow from this central principle. Delmarva Power's
10 distribution, standard offer and other services provide many opportunities over the
11 course of a year for the Company to interact with customers, and doing so safely,
12 reliably, and cost-effectively is essential to good relationships with customers and
13 the community.

14 Additionally, Delmarva Power employees stay involved through the
15 giving of their time and the Company provides encouragement and opportunities
16 to do so. The Company is a financial supporter of many non-profit organizations
17 whose focus is improving the quality of life of our neighbors. Whether targeting
18 improvements in education, emergency services, health and human services,
19 programs for children and youth or tackling the issues of hunger and
20 homelessness, Delmarva Power's giving is meant to help non-profit organizations
21 address and positively impact community life.

22 We also engage our employees in volunteer efforts with these
23 organizations to build a strong base of support for the activities carried out by

1 these organizations. Community and neighborhood groups in Delmarva Power's
2 service territory often call with questions about electric service, rates, construction
3 or maintenance on our system and other issues. Delmarva Power's Speakers
4 Bureau helps to bring the answers directly to our customers in their own
5 communities. Members of our Speakers Bureau are not public speaking
6 professionals, but knowledgeable Delmarva Power employee volunteers who
7 often specialize in the subject matter of interest to their community audience.
8 They are available to speak both during the day and in the evening. Through
9 October 2011, our employee volunteers made 48 presentations reaching 2,949
10 community members.

11 Delmarva Power makes a strong commitment to education in our region.
12 That's why Delmarva Power's Mini-Grant program offers grants up to \$500 to
13 educators to support innovative projects as well as those which are extensions of
14 currently funded programs within the schools. Preference is given to proposals
15 that focus on pertinent energy issues, such as wise energy use, local alternative
16 energy sources, environmental impact, economic implications, energy related
17 science content and electric safety.

18 The grant money can be used toward purchasing materials, conducting
19 special lessons and implementing special classroom projects not typically
20 supported by school funding. Over the last 10 years, Delmarva Power has
21 contributed over \$100,000 to schools.

1 The Company also maintains vital relationships with emergency support
2 services such as police and fire departments to ensure speedy communications
3 during emergencies.

4 **12. Q: Why is it important for the Company to maintain good relationships with its**
5 **customers and the community?**

6 A: Delmarva Power has the responsibility to provide safe and reliable electric
7 distribution service at the least possible cost to all customers within its service
8 territory. Good customer and community relations assist Delmarva Power in its
9 ability to provide those services. For example, good standing in the community
10 can translate into increased acceptance of demand response, energy efficiency,
11 conservation, and other utility-provided, socially-beneficial, programs.

12 **13. Q: How does the Company play a role as a leader in the electric power industry?**

13 A: The PHI companies share a common goal of being an industry leader and
14 each Company plays a role in this effort. Working towards this goal places the
15 Company in a position to participate in the shaping of public policy. PHI has
16 partnered with seven other investor-owned utilities across the nation as part of the
17 Clinton Global Initiative Energy Efficiency Commitment. The eight utilities
18 together serve nearly 20 million electric customers across 22 states and the
19 District of Columbia. The companies have made a 10-year commitment to reduce
20 carbon dioxide emissions by about 30 million tons – the equivalent of removing
21 nearly 6 million cars from the road. This effort will also negate the need for
22 building 50 500 megawatt peaking power plants. This commitment will be met

1 through increased investments in energy efficiency. The eight utilities were
2 selected for their positions of leadership and innovation in the industry.

3 **14. Q: How does the Company address environmental stewardship?**

4 **A:** While our primary mission is to provide safe, reliable, and affordable
5 electric service to our customers, the Company integrates environmental
6 considerations in decision making at all levels and in the conduct of all our
7 operations and activities. Compliance with environmental and safety
8 requirements is a critical element of the Company's business success. All
9 employees are required to understand and comply with the laws, regulations and
10 internal standards that apply to the performance of their job. Employees are
11 expected to ensure that the Company's day-to-day operations are conducted in
12 compliance with these requirements.

13 As a power delivery company, Delmarva Power is responsible for
14 maintaining the health of indigenous flora and fauna along its rights-of-way and
15 on and around all our facilities. Delmarva Power exercises proactive and
16 sustainable conservation and restoration initiatives in the course of our business
17 operations. We use a proactive approach to promote sound ecological practices
18 and to restore, conserve and manage wetlands, protected public areas, forests and
19 private property along our transmission and distribution line projects. As a result,
20 Delmarva Power is among the few utilities nationwide to receive annual
21 recognition as a *Tree Line USA* utility by the Arbor Day Foundation for superior
22 vegetation management on its rights-of-way. With the other utilities in the PHI
23 family, we share in the top-tier rankings awarded PHI this year by the Carbon

1 Disclosure Project and the Maplecroft Climate Innovation Index. As one of
2 Newsweek Magazine's "Top 100 Greenest Big Companies in America," PHI is
3 the third-highest ranked utility in the country for environmental policy and
4 performance.

5 Delmarva Power has donated to a number of other organizations
6 including, but not limited to: The Delaware Center for Horticulture in support of
7 its 2011 state wide tree program. The Lower Delaware Chapter of the National
8 Wild Turkey Federation to support wild turkey conservation efforts and the
9 Delaware Center for the Inland Bays for replacement of a terrapin barrier that was
10 destroyed due to a marsh fire.

11 Of course, environmental stewardship is about more than simply donating
12 money. The Company has taken substantial steps to improving its surrounding
13 environment. In September 2011, Delmarva Power was the primary corporate
14 sponsor for the 21st consecutive year of the *Coastal Cleanup*. Nearly 3,000
15 volunteers at 50 sites throughout Delaware, Maryland, and Virginia collected and
16 recycled approximately 31,000 pounds of trash, much of it washed ashore as a
17 result of Hurricane Irene.

18 Continuing to make these investments, which yield a positive
19 environmental quality return for the community, necessitates again that Delmarva
20 Power receive a fair return on these investments.

1 **15. Q: How does the Company help the State meet its energy, environmental and**
2 **economic development goals?**

3 **A:** The Company has a long history of supporting the State in meeting several
4 of its goals. The State has formalized their energy and environmental goals
5 around a 25% Renewable Energy Portfolio Standards (RPS) by the year 2025 and
6 a 15% Energy Efficiency Resource goal by the year 2015.

7 First, with a comprehensive portfolio of wind, solar and fuel cell
8 generation, we have taken significant steps toward meeting the Renewable Energy
9 Portfolio Standards (RPS) set by the State. We are the first in the State to meet
10 these goals through executed contracts for supply.

11 We also have made Delaware the flagship for roll-out of our Advanced
12 Metering Infrastructure (AMI). By doing so, and in combination with upcoming
13 programs such as Dynamic Pricing, we are creating the tools necessary to meet
14 the 15% load reduction goals of the State by 2015.

15 Although we do not currently perform the energy efficiency role within
16 the State, we have always positioned ourselves as ready to take on a more
17 aggressive role in energy efficiency if needed.

18 Beyond the energy goals of the State, through our off-shore wind contract
19 and Bloom Fuel Cell project we have also contributed a great deal to the
20 economic development activity of the State. Both of these projects required
21 extensive work to find a solution that balanced the impact to our customers, and
22 our company with the economic development goals of the State.

1 Recently Delmarva Power played a key leadership role on a state wide
2 taskforce created by the General Assembly charged with making
3 recommendations about and reporting on, among other items; establishing
4 mechanisms to maximize in-state renewable energy generation and local
5 manufacturing; and ensuring that residential, commercial, and utility scale
6 photovoltaic and solar thermal systems of various sizes are financially viable and
7 cost-effective investments in Delaware. This effort was designed to advance the
8 State's energy, environmental, and economic development goals and Delmarva
9 Power was key in making this happen.

10 **16. Q: Can you please summarize your testimony?**

11 **A:** Yes. Delmarva Power is committed to its customers and the
12 communities in which they live and work. Its corporate values stress safety,
13 service excellence, and commitment to socially-responsible corporate actions.
14 The Company's corporate activities demonstrate its adherence to those values.

15 The customers of Delmarva Power benefit in many ways beyond our
16 direct service from having a strong, healthy and involved utility company
17 supporting their community. From our many years of service in the communities
18 that we serve, we have become an integral part of the health of our region. We
19 add this extra value to our communities through:

- 20 • Helping our communities weather difficult times through Corporate
21 contributions and volunteerism,
- 22 • Ensuring a strong energy infrastructure that fuels the economic engine
23 of the State,

- 1 • Acting as a leader in the energy field and helping State officials create
- 2 policy that leads to more efficient and reliable energy use,
- 3 • Enacting key parts of State policy such as Reducing energy demand,
- 4 increasing the use of renewable energy, reducing emissions and
- 5 helping to grow green jobs, and
- 6 • Improving the environmental condition of the regions in which we do
- 7 business through a holistic approach to environmental sustainability.

8 It is in the best interests of our customers, our communities, the State's

9 energy policies, as well as our shareholders, for Delmarva Power to be financially

10 healthy. The Company is committed to working with our customers, our

11 communities, the Commission, and all other stakeholders to secure the financial

12 resources necessary to provide safe and reliable electric service at the lowest

13 possible cost. Delmarva Power's rate request in this proceeding is a necessary

14 and key component of its ability to remain a solid member of the community.

15 **17. Q: Does this conclude your direct testimony?**

16 **A:** Yes, it does.